

Idaho Legislative Audits  
P.O. Box 83720  
Boise, ID 83720-0054  
208-334-2475



## DEQ – Clean Water State Revolving Fund

### Audit Report

Issued: April 3, 2006  
Fiscal Year: 2005



## ***EXECUTIVE SUMMARY LEGISLATIVE AUDITS***

### **IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY CLEAN WATER STATE REVOLVING FUND**

**PURPOSE AND SCOPE.** We have audited the financial statements of the Idaho Department of Environmental Quality, Clean Water State Revolving Fund (CWSRF) for the fiscal year ended June 30, 2005, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine if the CWSRF's financial statements are materially accurate and reliable, and that it complied with laws and regulations affecting fiscal operations. The U.S. Environmental Protection Agency (EPA) requires a separate annual financial and compliance audit of the CWSRF.

**CONCLUSION.** We conclude that the CWSRF's financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on the CWSRF's financial statements.

**FINDINGS AND RECOMMENDATIONS.** There are three findings and recommendations in this report, explained below.

**FINDING #1.** The accounting has errors and is not completed in a timely manner. The prior audit noted several accounting errors and financial statements that were not completed in a timely manner. This was again found to be the case. For example:

1. Net assets reported on the Statement of Net Assets do not match net assets reported on the Statement of Revenues, Expenses, and Changes in Net Assets. The difference was \$12 million.
2. Loan disbursements of \$900,000 were incorrectly made from another fund instead of from the CWSRF. The Department was unaware of these incorrect disbursements.
3. Interest was miscalculated and incorrect allocations of borrower repayments between principal and interest were made.

These errors can lead to over- or underpayment of loans, incorrect management decisions, non-compliance with loan agreements, and misappropriation of assets. We believe these errors occur because only one employee completes the accounting work with little oversight. Also, the lack of a fully integrated and automated accounting system may contribute to errors.

**We recommend** that more than one person be trained to complete the CWSRF's accounting and that management provide timely oversight and reviews. The Department should also generate accounting reports in a timely manner, complete timely reconciliations, and consider a new accounting system.

**FINDING #2.** The accounting structure is unnecessarily cumbersome and inefficient. The prior audit noted that the Department used three separate funds<sup>1</sup> to account for the CWSRF's activities when one would suffice. The Department still uses three funds. One fund records loan repayments; a second fund, which has a large negative cash balance, records disbursements; and a third fund accounts for miscellaneous transactions, such as recording interest earnings. Additionally, the Department unnecessarily uses separate program codes for different types of loan transactions, leading to multiple codes for each loan. This current process leads to less timely and efficient reconciliations, more difficult accounting, and control weaknesses.

**We recommend** that the Department eliminate unnecessary funds and program codes.

**FINDING #3.** Documentation that supports transactions is not always adequate. As in the last audit, the Department could not provide adequate documentation for some transactions. Approval from management and borrowers for loan re-amortizations was not documented, and explanations for why repayment schedules did not agree with loan closing documents were not documented. Also, there was no documentation to explain why some payments were not recorded in accordance with the loan agreements.

**We recommend** that the Department document all loan decisions that affect loans or transactions related to them. Documentation should include management and borrower approval for loan re-amortizations, and explanations for why amounts on the repayment schedules do not agree with loan closing documents. Also, the loan agreements should explain how non-scheduled payments are to be recorded against the loan.

**PRIOR FINDINGS AND RECOMMENDATIONS.** There were three findings and recommendations in the prior report. The first finding, regarding cash investment into the long-term investment pool, was closed. In accordance with our recommendation, the Department invested \$40 million in the State Treasurer's long-term investments and now completes cash flow projections. The second finding, concerning the cumbersome accounting system, is closed and repeated in this report. And the final finding, regarding the lack of supporting documentation, is also closed and repeated in this report.

**AGENCY RESPONSE.** The Department has reviewed the report and is in general agreement with its contents.

**FINANCIAL SUMMARY.** The CWSRF is financed by grants from the U.S. Environmental Protection Agency (EPA) and State matching funds. The CWSRF is used to provide loans to municipalities at reduced rates to finance construction of publicly owned wastewater pollution control facilities. The financial activity of the CWSRF for the fiscal year ended June 30, 2005 is summarized as follows:

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<sup>1</sup> The State accounting system separates some funds into fund details. A fund detail, like a fund, is a separate set of self-balancing accounts, requires the same accounting effort as a fund, and, in essence, is the same as a fund. For the purpose of simplification, "funds," as used in this report, means both funds and fund details.

**Clean Water State Revolving Fund**  
**Statement of Net Assets at June 30, 2005**

<b>ASSETS:</b>	
<u>Current Assets</u>	
Cash	\$79,367,031
Loans Receivable	2,523,918
Interest Receivable – Loans	2,051,897
Interest Receivable – Fund Balance	<u>141,919</u>
Total Current Assets	\$84,084,765
 <u>Non-Current Assets</u>	
Loans Receivable	<u>76,475,934</u>
Total Non-Current Assets	<u>\$76,475,934</u>
 TOTAL ASSETS	 <u>\$160,560,699</u>
 <b>LIABILITIES:</b>	
<u>Current Liabilities</u>	
Miscellaneous Payables	<u>\$13,425</u>
TOTAL LIABILITIES	<u>\$13,425</u>
 NET ASSETS:	 <u>\$160,547,274</u>
Unrestricted	<u>\$160,547,274</u>
TOTAL NET ASSETS	<u><u>\$160,547,274</u></u>

**Clean Water State Revolving Fund**  
**Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30, 2005**

<u>Operating Revenues</u>	
Interest Earned – Loans	<u>\$3,002,207</u>
Total Operating Revenues	<u>\$3,002,207</u>
 <u>Operating Expenses</u>	
Personnel Costs	\$252,550
Indirect Expenses	93,666
Other Expenses	<u>33,840</u>
Total Operating Expenses	<u>\$380,056</u>
 Operating Income	 \$2,622,151
 <u>Non-Operating Revenues</u>	
Contributions from EPA	6,592,777
Contributions from State	1,294,360
Interest Earned – Fund Balance	<u>1,835,428</u>
Total Non-Operating Revenue	<u>\$9,722,565</u>
 Changes in Net Assets	 \$12,344,716
Net Assets – Beginning of Year	<u>148,202,558</u>
Net Assets – End of Year	<u><u>\$160,547,274</u></u>

**OTHER ISSUES.** We discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Idaho Department of Environmental Quality, the U.S. Environmental Protection Agency, and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank the director, Toni Hardesty, and her staff for their assistance and cooperation given to us during this audit.

**QUESTIONS CONCERNING THIS AUDIT SHOULD BE DIRECTED TO:**

Ray Ineck, CGFM, Supervisor, Legislative Audits

Thomas Haddock, CPA, CGFM, Managing Auditor

Report SA24705

For a copy of the entire audit report , contact Legislative Services Office, Audit Division, State Capitol Building, 700 W. Jefferson Street, P.O. Box 83720, Boise, Idaho 83720-0054, or call 208-334-3540.